Schröder’s Agenda 2010 programme turns out to be surprisingly successful

Former German chancellor sowed seeds for German growth and predicted differentials in euro area performance

by David Marsh

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Who is the real architect of the surprisingly robust German economic recovery? He’s the same person who is mainly responsible for the demise of the Stability and Growth Pact designed to curb budget deficits within Europe’s economic and monetary union (EMU). And he is also the eerily-correct prophet of the alarming growth differentials within EMU which threaten to make 2011 a further year of crisis for the euro area.

Step forward Gerhard Schröder, the Social Democrat (SPD) leader who handed over power five years ago to Angela Merkel. Many of the economic developments now influencing Germany and Europe bear the hallmarks of Schröder’s time as chancellor of a SPD-Green coalition in 1998-2005. Indeed, his so-called Agenda 2010 programme, forged to rebuild industrial competitiveness after the long-lasting strains of German unification in 1990, has proven to be surprisingly successful – five years after he left office.

Let’s look first at the remarkable strength of the economic upswing in Germany, which the Government now says will record 3.4% growth in 2010, up from a spring forecast of only 1.4%. Certainly, this partly represents a response to the nearly 5% decline in gross domestic product last year. However Italy and the UK suffered a similar downturn in 2009 and are now experiencing nothing like the same improvement as in Germany.

One of the strong fundamental reasons for the recovery was the reform programme put into place by Ms Merkel’s predecessor as Chancellor. The Agenda 2010 measures to restore economic capacity bore Schröder’s trademark.

The former Chancellor presided over a gigantic effort across the whole of German industry to lower wage and industrial costs. Without this preparation for the rigours of recession, Germany would never have been in a position to benefit from the speedy recovery in the world economy that eventually took shape after the 2009 downturn. The results, now that we have actually reached the year 2010, are there for all to see.

Another landmark under Schröder was actually a failure - the effective suspension in 2003 of EMU’s Stability and Growth Pact (SGP) invented by the Germans in the 1990s to try to rein back on EMU states’ budgets deficits after the introduction of the euro. The reasons for the SGP’s demise were effectively the same as those that led to stagnation in real wages and increases in competitiveness in the early years of the 2000s, namely Germany’s sluggish economic development during the early years of monetary union. Schröder together with his Economics Minister Wolfgang Clement blamed the allegedly overly restrictive monetary policy of the European Central Bank for Germany’s increased unemployment and growing budget deficits in those years. Together with French President Jacques Chirac, Schröder refused to be labelled as a ‘deficit sinner, liable for penalty payments to the EU authorities under the SGP. Never an enthusiast for monetary union, he claimed that Germany had already made enough sacrifices to enter the euro. As a result, a crucial instrument for guiding EMU’s future was rendered ineffective – by the two most important states in monetary union. Today, still, the ECB charges that Schröder should shoulder the lion’s share of the blame for having given a bad example to other euro members such as Greece whose fiscal incontinence has contributed to the problems in EMU we see today.

In the third area, the increasing gap in economic performance between the northern and southern euro members, Schröder is not only at the root of the policies that have caused these disparities; he also predicted them 12 years ago. Schröder’s achievements in recreating the old Teutonic virtues of discipline and price stability have now exposed in brutal fashion the economic vulnerability of the other more free-wheeling euro states. During a conversation with me in the spring of 1998, shortly before he became the Chancellor-candidate of the Social Democrats for the elections in the autumn of 1998 (which he won against the incumbent Helmut Kohl), Schröder predicted that the euro would cause a renaissance of German economic dominance in Europe.
The reasons? The new currency would tend to weakness; the Germans would keep their costs down and thus achieve a powerful competitive edge over countries that could no longer devalue within Europe. This development, Schröder forecast, would make it easier for German companies not only to boost their exports throughout Europe but also to acquire firms in other countries that had been weakened by the effects of the euro. All this can be authenticated because I wrote down Schröder’s predictions at the time and published them in various outlets. A rare experience, indeed, that politicians set down in advance with such precision the results of their own policies. The chronicle of recent years, and in particular the remarkable unfolding of Schröder’s Agenda 2010, makes it clear that we are now living through an era in European economic history that the former Chancellor not only shaped but also foretold.